Historic Preservation and Community Development:
Why Cities and Towns Should Look to the Past as a Key to their Future

House Government Reform Subcommittee on Federalism and the Census

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North Carolina has extensively leveraged the Federal Rehabilitation Tax Credit to achieve significant community development goals in many cities, towns and rural areas. The preservation community is urging Congress to pass a measure that would make beneficial changes to the existing Federal historic preservation tax credit for commercial properties, and we hope that this will someday lead to the creation of a Federal incentive for the rehabilitation of owner-occupied homes. This would greatly enhance the effectiveness of historic preservation as a force for community revitalization.

Legislative History of North Carolina's Rehabilitation Tax Credits

North Carolina, like many other states, benefited enormously from major tax credit activity from 1981 to 1986 when the Federal historic rehabilitation tax credits were at their prime. A burst of rehabilitation activity occurred in downtowns throughout the state during those years, including some of the state's most ambitious rehabilitation and adaptive use projects. After the reduction of the credits from 25% to 20% by Congress in 1986 and the inclusion of income limitations and passive income rules, the wave of downtown revitalization and adaptive use slowed.

In 1993, the North Carolina General Assembly passed the first North Carolina state credit for rehabilitation. The 5% "piggyback" state credit was enacted in response to Congress' 1986 reduction of the Federal Rehabilitation Tax Credit. The bipartisan legislative action in 1993 was intended to try to stimulate a new wave of rehabilitation, and it resulted in a modest increase in rehabilitation activity.

In 1997, at the recommendation of a Legislative Study Commission on Downtown Revitalization, the North Carolina General Assembly increased the North Carolina state credit from 5% to 20%. The new "piggyback" State credit had to be taken over a period of 5-10 years, so it wasn't as potent as the Federal credit, which could be taken in one year. Two of the most persuasive political arguments for the adoption of the state credit were based on the existence of the Federal program: 1) The State incentive would have minimal administrative costs, since eligibility for the credits relied on an existing Federal/State administrative infrastructure. If you followed the Federal rules and obtained the Federal credit, then the State credit was automatic for

North Carolina taxpayers. 2) The State program would increase the amount of Federal subsidy being used in North Carolina.

Significantly, the 1997 bill also created a new 30% historic rehabilitation tax credit for homeowners. At the time, Congressional passage of the Historic Homeownership Assistance Act seemed unlikely, so the North Carolina legislature created a state incentive that mimicked the rehabilitation guidelines and application process of the Federal program. In testimony, all were in agreement that if Congress ever created a new Federal incentive for homeowners, the State credit would be reduced or eliminated.

The new 1997 State tax credits provisions significantly increased rehabilitation activity in North Carolina. In 2003, it appeared that the increase in rehabilitation activity was going to overwhelm the North Carolina Historic Preservation Office's ability to administer the program effectively. Private sector advocates went to the legislature and won passage of a fee system to support the program. The implementation of fees provides funding for the state office to hire additional staff to review National Register nominations and tax credit applications, so that reviews can take place in a timely manner.

In June 2006, the North Carolina General Assembly (by a margin of 48-1 in the Senate and 116-2 in the House) further leveraged the Federal program by providing an additional incentive for the rehabilitation of vacant industrial, utility and agricultural buildings. The new law provides a 40% "piggyback" state tax credit for the rehabilitation of these buildings in the poorer counties and 30% in the more prosperous counties. It also provides an expanded tax credit for the renovation of these large vacant buildings for owner-occupied residential use (i.e., condos) in poorer counties. To take advantage of this new incentive, projects must exceed $3 million in rehabilitation expenditures. The North Carolina legislature, in passing this bill, clearly understood the value of historic preservation as a producer of jobs and a catalyst for local revitalization. The bill is expected to generate $270 million in additional historic rehabilitation during the next five years.

The Impact of North Carolina's State Tax Credits

Between 1998 (the advent of the enhanced state historic tax credits) and 2005, 1,040 rehabilitation projects representing $1.6 billion of rehabilitation have been applied for in North Carolina. The impact of the state tax credit program has exceeded all expectations.

Since the new credits were made effective in 1998, both the number of rehabilitation projects and the amount of rehabilitation have grown steadily, despite the ensuing recession. In 1997, the last year before the enhanced State credits went into effect, the existing Federal/State tax credits generated $14 million of rehabilitation activity. In 2003, 2004 and 2005, despite an uncertain economy and major loss of manufacturing jobs in North Carolina, rehabilitation expenditures averaged more than $140 million a year – a 1,000+% increase in historic rehabilitation. The number of completed rehabilitation projects grew from 23 in 1997 to 188 in 2005.

Its impact can be seen "on the ground" in historic districts, both commercial and residential, in many North Carolina cities and towns. Downtowns in Asheville, Salisbury, New Bern, Winston-

Salem, Greensboro, Durham, Raleigh, Fayetteville, and Wilmington are just a few that have experienced substantial rehabilitation generated by the tax credits. Vacant textile mills in Edenton, Eden, Mount Airy, and many larger cities have been renovated, helping to revive their surrounding neighborhoods. The renovation of tobacco warehouses has led recovery efforts in downtown Durham.

Two studies by graduate students at the University of North Carolina (one in Public Administration, one in City Planning) have analyzed the North Carolina tax credits. Both concluded that the State of North Carolina is benefiting fiscally from the incentive program. Increases in income and sales taxes generated directly from the rehabilitations exceed the cost of the incentives, not even taking into account the indirect benefits.

Preservation North Carolina (PNC) operates a statewide Endangered Properties Program, through which it works to find buyers for troubled properties. Two of its most ambitious projects have involved the revitalization of vacant textile mills and mill villages. Without the state tax credits, these projects would not have succeeded.

In late1995, Unifi, Inc. donated the shuttered Edenton Cotton Mill and mill village (57 houses, largely vacant and board-up, plus eight vacant lots) to PNC. The first houses were sold within weeks of the passage of the state's tax credits for owner-occupied homes. By 2001, 47 out of the 57 mill houses had been sold for owner-occupied rehabilitation. Since then, every available historic house and every vacant lot in the mill village have been sold. Eight new houses have been built in the village according to our plans. All condos in phase one of the redevelopment of the mill building have been sold, and all condos in phase two have been reserved.

Property tax statistics convey the success of this community revitalization project. The 1998 tax value of Edenton Cotton Mill and mill village was $863,685; the 2006 tax value is $14,625,000. The average tax value for houses increased from $37,606 (mostly vacant) in 1998 to $224,904 in 2005. When the mill rehabilitation is completed, the tax value will approach $20 million. The 1998 tax value of Edenton Peanut Mill (a PNC property adjacent to the mill village) was $45,336; its tax value is now $1,042,939. These tax base increases are substantial for a small town with a population of 5,100 in a depressed rural region, especially since they did not involve substantial municipal expenditures for infrastructure.

In 1998, PNC purchased Glencoe Mill and mill village near Burlington. Sited along the Haw River, Glencoe Mill shut down in 1954, and many of the mill houses had been vacant for decades. Glencoe had only one resident. PNC offered 32 houses for sale for owner-occupied rehabilitation; the mill village also had ten vacant lots. All houses have now sold, and five new houses have been built at Glencoe. The mill is under contract, and rehabilitation will begin as soon as a brownfields agreement with the state is concluded. This fall, Alamance County plans to purchase vacant land along the river at Glencoe for a park. The property, which appraised for $244,000 in 1998, is now valued at more than $8 million. After the rehabilitation of the mill and the last houses, that value will exceed $14 million. In addition to being a substantial boost for the tax base, Glencoe is rapidly becoming a tourist destination, telling the story of the early Southern textile industry.

The revitalization of these mills and mill villages at Edenton and Glencoe would not have succeeded without the North Carolina tax credits program, especially the rehabilitation incentive for owner-occupied homes.

How Congress Could Increase the Effectiveness of the Tax Credits

The Federal historic rehabilitation tax credit program has proven an exceptional tool for rehabilitation nationally. In North Carolina, by adding state tax credits to both enhance and expand the Federal incentive, the rehabilitation tax credits have been instrumental in reviving deteriorated downtown areas, neighborhoods, and landmarks.

It is extremely important that Congress provide funding for the State Historic Preservation Offices through the Historic Preservation Fund at adequate levels for the administration of the national preservation program, including the rehabilitation tax credits. If the review process for the program bogs down for lack of funding, rehabilitation will not happen.

As others will testify, the passage of House Bill 3159 (the English Bill) will aid in refining the existing Federal rehabilitation tax credits and increasing their effectiveness. The entire preservation community is united in its support for this bill that would make the existing historic credit work better for community revitalization, housing production, and smaller, main street-oriented projects.

Once Congress approves changes to make the existing credit work better, it should consider a Federal incentive for housing rehabilitation for homeowners would be a major boost to cities and towns throughout the country. Imagine the impact that hundreds of thousands of private owner-occupied residential rehabilitation projects would have on the health of America's cities and towns. Local tax bases would be enhanced. Neighborhoods would be energized. Skilled jobs would be created. The nation's vast inventory of unused and underused housing would again be made available as homes, creating housing that's affordable for many. Landfills would be less strained from demolition debris. Sprawl would be reduced. The nation's existing public infrastructure of roads, utilities, schools, and fire stations would be put back into better use. Successful downtown revitalization demands the return of residents to downtowns and downtown neighborhoods. In North Carolina, the incentive for owner-occupied housing has proven its value in many communities, and a similar Federal program would have even more impact.

On behalf of Preservation North Carolina, I urge Congress to pass HR 3159 so that we can unlock the full potential of the historic rehabilitation tax credit and ultimately consider the creation of an incentive for the rehabilitation of historic buildings for owner-occupied residential use. Its impact would be powerful.